

Canadian Marconi Company

**Annual Report
March 31, 1975**

Directors

C.-E. Bélanger, C.A.

Counsel
Bélanger, Saint-Jacques, Sirois, Comtois & Cie
Sherbrooke, Canada

L.M. Daley

President and Chief Executive Officer
Canadian Marconi Company
Montreal, Canada

S. Dobb, F.C.A.

Assistant Managing Director
GEC-Marconi Electronics Limited
London, England

S.M. Finlayson

Chancellor
McGill University
Montreal, Canada

H. Hansard, Q.C.

Counsel, Senior Partner
Ogilvy, Cope, Porteous, Montgomery,
Renault, Clarke & Kirkpatrick
Montreal, Canada

E.O. Herzfeld

Vice Chairman, Canadian Marconi Company
Associate Director
The General Electric Company Limited
London, England

H.J. Lang

Chairman and Chief Executive Officer
Canon Limited
Montreal, Canada

J.E. Pateman, C.B.E., M.I.E.E.

Managing Director
Marconi-Elliott Avionic Systems Limited
London, England

I.D. Sinclair, Q.C.

Chairman and Chief Executive Officer
Canadian Pacific Limited
Montreal, Canada

R. Telford, C.B.E., F.I.E.E.

Director
The General Electric Company Limited
Managing Director
GEC-Marconi Electronics Limited
London, England

Officers

E.O. Herzfeld

Vice Chairman

L.M. Daley

President and Chief Executive Officer

W. Baillie

Senior Vice President, and Manager Products and Markets

P.E. Wheatley

Senior Vice President, and Chief Financial Officer and Treasurer

D.A. Beggs

Vice President and Comptroller

J.A. Howlett

Vice President, Organization and Personnel

C.W. Perry

Vice President, Corporate Affairs and Secretary

J.W. Dodds, Ph.D.

Vice President, Telecommunications Division

K.C.M. Glegg

Vice President, Avionics Division

G. Gorfinkel

Vice President, Marine and Land Communications Division

R. MacLeod

Vice President, Special Services Division

D.J. Smallwood

Assistant Treasurer

Head Office

2442 Trenton Avenue, Montreal, Quebec H3P 1Y9
Telephone: 341-7630

Registrar

Montreal Trust Company
Montreal, Canada

Transfer Agent

Canada Permanent Trust Company
600 Dorchester Boulevard West, Montreal, Canada H3B 1N6

Auditors

Price Waterhouse & Co.
Montreal, Canada

The Annual General Meeting of Shareholders will be held at the Company's Head Office in the City of Montreal, 380 Aberdare Road entrance, on Thursday morning, August 28, 1975 at 11:00 o'clock.

Pour obtenir une copie française de notre rapport annuel, prière d'adresser votre demande au Secrétaire de la Société.

Financial Highlights

(in thousands of dollars, except as otherwise stated)

	Year ended March 31				Year ended December 31	
	1975	1974	1973	1972	1971 (3 months)	1970
Sales and other revenues . . .	\$50,827	\$42,144	\$56,688	\$57,508	\$12,401	\$72,577
Depreciation and amortization	1,026	1,090	1,312	1,739	446	2,001
Net income:						
before extraordinary items .	3,350	2,041	1,708	782	(556)	1,791
after extraordinary items . .	3,350	2,041	11,708	660	(657)	5,603
Dividends	891	743	594	—	—	—
Shareholders' equity	37,027	34,568	33,270	22,156	21,496	22,153
Funds (Working Capital)	37,033	35,281	33,602	18,680	16,985	17,253
<hr/>						
Number of shares (in thousands)	5,943	5,943	5,943	5,943	5,943	5,943
Per share data (in dollars)						
Net income						
before extraordinary items	0.56	0.34	0.29	0.13	—	0.30
after extraordinary items .	0.56	0.34	1.97	0.11	—	0.94
Dividends	0.15	0.125	0.10	—	—	—
Shareholders' equity	6.23	5.82	5.60	3.73	3.62	3.73

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Directors' Report to Shareholders

Results for the year

Shareholders will recall that in our half-yearly statement we expressed confidence in being able to maintain the rate of earnings reported in the first six months. Shipments for the year were somewhat higher than was envisaged at that time which resulted in sales and other revenues exceeding \$50 million and net income after taxes rising to a record \$3,350,000 or 56 cents per share.

To this improvement all of the Company's manufacturing divisions contributed and our United States subsidiary, Kaar Electronics Corporation, again operated profitably. The after-tax result was helped by a redemption of our sinking fund debentures which resulted in a net gain of approximately \$250,000.

Activities and Products

The Company further broadened its product range and succeeded in marketing a number of new products and systems which have been under development for some time.

In Canada, the Company obtained an important contract for the supply of its MCS-6900 pulse code modulated digital microwave communication system to Manitoba Hydro-Electric Commission. A major order was also placed with us by Canadian Overseas Telecommunication Corporation for the design and supply of an International Telex Transit Exchange.

Orders were received from a variety of customers, mainly in the export market, for our fully automatic satellite receiving equipment for position locating.

Our longer established product lines, particularly our marine and land communications equipment, airborne Doppler navigational aids and AN/GRC-103 radio relay equipment, continue to provide an important base for our manufacturing operations and represent a sizeable part of our expanding export business.

Investment Policy

At the year end our cash and short-term investments amounted to approximately \$26 million against some \$28 million at the end of the preceding year. Approximately half of this reduction was due to the redemption of long-term debt.

During the year a significant proportion of our available liquid resources was, from time to time, required to meet increased working capital needs resulting from our expanding activity; however this

did not diminish our total interest income for the year compared to the previous year. Improvement in the supply position of essential components is beginning to enable us to bring our inventory levels down to a more satisfactory ratio to sales. On the other hand, our current order backlog and prospects for future business, much of which represent contracts with extended delivery periods, may involve us in drawing on these funds again in the future.

The Directors consider that a substantial part of these funds can be made available for new investment provided suitable opportunities can be found which meet the criteria we feel we must set for long-term investment.

Dividend

Shareholders will recall that after a considerable interval dividends were resumed in 1972. The last three payments were at 7½ cents per share. Our improved earnings have enabled us to raise the rate of dividend again and to declare, on May 22, 1975, a dividend of 10 cents per share payable on June 27, 1975 to shareholders of record as at June 6, 1975.

Officers

In last year's Report we referred to the appointment of Messrs. W. Baillie and P.E. Wheatley as Senior Vice Presidents. To make this fully effective certain changes in the By-laws of the Company have been found desirable and you will be asked to confirm these at the forthcoming Annual General Meeting.

During the year Mr. E.D. Hickin, who had been with the Company some 52 years, retired as Assistant Treasurer and was replaced in that capacity by Mr. D.J. Smallwood.

Outlook

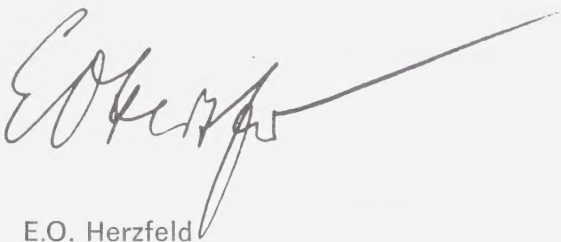
Our order backlog, which rose during last year to some \$40 million, remained at approximately that level and enables us to anticipate a further increase in sales this year. This should also result in a further improvement in our earnings from operations though not to the same degree as in the year just ended.

The lower rates of interest currently obtainable on our short-term investments indicate the likelihood of a reduction in interest earnings. However, while any prediction, particularly for an

export oriented Company like ours, must be subject to world economic and political conditions, we confidently expect that we will again be able to report a satisfactory result for the current year.

We wish to express our appreciation to our employees, many of whom have served Canadian Marconi Company over a long period of years, for the contribution they have made to the improvement in our Company's performance.

On behalf of the Board,



E.O. Herzfeld
Vice Chairman



L.M. Daley
President and
Chief Executive Officer

May 22, 1975
Montreal, Quebec

Consolidated Balance Sheet

Assets	March 31	
	1975	1974
	(in thousands)	
Current assets:		
Cash	\$ 2,499	\$ 1,791
Short-term investments, at cost, including accrued interest (approximates market)	23,686	26,525
Accounts receivable	8,408	5,427
Owing by associated companies	494	264
Inventories (Note 2)	13,209	11,202
Prepaid expenses	186	300
	<u>48,482</u>	<u>45,509</u>
 Deferred accounts receivable	 <u>381</u>	 <u>529</u>
 Fixed assets, at cost:		
Land and buildings	7,756	7,769
Machinery and equipment	<u>10,366</u>	<u>10,379</u>
	18,122	18,148
Less: Accumulated depreciation	<u>10,916</u>	<u>10,526</u>
	7,206	7,622
	 <u><u>\$56,069</u></u>	 <u><u>\$53,660</u></u>

Approved by the Board:

E. O. Herzfeld, *Director*

L. M. Daley, *Director*

Liabilities and Shareholders' Equity	March 31	
	1975	1974
	(in thousands)	
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,769	\$ 8,905
Owing to associated companies	219	114
Income taxes	1,384	1,135
Sales and excise taxes payable	77	74
	<u>11,449</u>	<u>10,228</u>
Deferred income taxes	<u>1,178</u>	<u>1,284</u>
Long-term debt (Note 3):		
5 ³ / ₄ % unsecured sinking fund debentures, series A, due May 1, 1988	4,223	4,832
7% unsecured sinking fund debentures, series B, due June 1, 1989	2,192	2,748
	<u>6,415</u>	<u>7,580</u>
Shareholders' equity:		
Capital stock:		
Authorized: 7,500,000 shares of \$1 each		
Issued: 5,943,192 shares	5,943	5,943
Contributed surplus	4,273	4,273
Retained earnings	<u>26,811</u>	<u>24,352</u>
	<u>37,027</u>	<u>34,568</u>
Contingent liability:		
Accounts receivable under leases discounted and repurchase agreements	\$400,000	
	<u>\$56,069</u>	<u>\$53,660</u>

Auditors' Report

To the Shareholders of Canadian Marconi Company

We have examined the consolidated balance sheet of Canadian Marconi Company and subsidiary companies as at March 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse Co.

Chartered Accountants

Montreal, May 22, 1975

Consolidated Statement of Income

	Year ended March 31	
	1975	1974
	(in thousands)	
Revenue:		
Electronic products	\$48,764	\$40,171
Interest from short-term investments	2,063	1,973
	<u>50,827</u>	<u>42,144</u>
Expenses:		
Development, manufacturing, selling and administrative costs	43,549	36,821
Depreciation	1,026	1,090
Interest on long-term debt	402	492
	<u>44,977</u>	<u>38,403</u>
Income before income taxes	5,850	3,741
Provision for income taxes	2,500	1,700
Net income	<u>\$ 3,350</u>	<u>\$ 2,041</u>
Earnings per share	\$ 0.56	\$ 0.34

Consolidated Statement of Retained Earnings

	Year ended March 31	
	1975	1974
	(in thousands)	
Retained earnings, beginning of year	\$24,352	\$23,054
Net income	3,350	2,041
	<u>27,702</u>	<u>25,095</u>
Dividends – 15 cents per share (1974 – 12.5 cents per share)	891	743
Retained earnings, end of year	<u>\$26,811</u>	<u>\$24,352</u>

Consolidated Statement of Changes in Financial Position

	Year ended March 31	
	1975	1974
	(in thousands)	
Funds (working capital) were provided from:		
Operations –		
Net income	\$ 3,350	\$ 2,041
Depreciation	1,026	1,090
Deferred income taxes	(106)	43
	<u>4,270</u>	<u>3,174</u>
Proceeds from sale of fixed assets	134	190
Decrease in deferred accounts receivable	148	177
	<u>4,552</u>	<u>3,541</u>
Funds (working capital) were applied to:		
Additions to fixed assets	744	689
Reduction of long-term debt	1,165	430
Dividends	891	743
	<u>2,800</u>	<u>1,862</u>
Increase in funds	1,752	1,679
Funds, beginning of year	35,281	33,602
Funds, end of year	\$37,033	\$35,281

Notes to Consolidated Financial Statements — March 31, 1975

1. Summary of accounting policies:

(a) Principles of consolidation—

The consolidated financial statements include the accounts of Canadian Marconi Company and all its subsidiary companies which are Kaar Electronics Corporation, Kaar Communications Corporation and Kaar Electronics Corporation of Canada Limited.

(b) Translation of foreign currencies—

Current assets and liabilities of Canadian Marconi Company, in foreign currencies, are translated into Canadian dollars at rates of exchange in effect as at the balance sheet date. Amounts entering into results of operations are translated at average rates.

Operating results, assets and liabilities of foreign subsidiaries are translated into Canadian dollars at rates of exchange in effect as at the balance sheet date.

Exchange profits and losses are included in net income.

(c) Inventories—

Work in process, raw materials and finished products are valued at the lower of cost and net realizable value. Deductions are made for progress payments received and any losses incurred or expected to be incurred on contracts not completed at the balance sheet date.

(d) Research and development expenditure—

Research and development expenditure is charged against income as incurred except where recoverable from current contracts in progress.

(e) Depreciation—

Depreciation is provided by using rates based on the estimated useful lives of the assets. Fixed assets retired or otherwise disposed of are eliminated from the asset and accumulated depreciation accounts. Gains and losses from disposals are included in income.

(f) Income taxes—

The provision for income taxes includes deferred income tax charges and credits applicable to timing differences due to certain types of revenue and expense being recorded in the accounts in periods different from those in which they are reported for income tax purposes.

(g) Recognition of revenue—

Sales are normally recognized when products are delivered to customers; however, revenue from major long-term contracts is recorded on the percentage of completion method based on the ratio of the incurred costs to date to the projected total costs of completing the contracts.

2. Inventories:

Inventories are summarized as follows:

	1975	1974
	(in thousands)	
Work in process, less progress payments	\$ 6,171	\$ 6,136
Raw materials	3,756	2,995
Finished products	3,282	2,071
	<u>\$13,209</u>	<u>\$11,202</u>

3. Long-term debt:

Sinking fund provisions of the series A and B debentures require payments aggregating \$316,000 annually in the years 1975 to 1979 inclusive. Debentures have been purchased and surrendered for cancellation in full satisfaction of 1975, 1976 and 1977, and in partial satisfaction of requirements of the years 1978 to 1982 inclusive. A gain of \$253,000 (1974 - \$89,000) arose out of the purchases and is included in income.

4. Remuneration of directors and officers:

Remuneration of directors and officers:	1975		1974	
	Number	Amount	Number	Amount
Directors	10		11	
Aggregate remuneration as directors		\$ 20,200		\$ 21,400
Officers	12		12	
Aggregate remuneration as officers		491,097		525,983
Number of officers who are also directors	2		2	

5. Pension plan:

At March 31, 1975 there is an estimated unfunded liability in respect of past service in the pension plan amounting to \$1,218,000. This liability is to be funded by annual payments of no less than \$116,000 per annum until 1990.

Operating Divisions

AVIONICS DIVISION

Engineering, manufacturing and marketing of airborne systems including Doppler Navigation, automatic Omega, Area Navigation and instrumentation display; ground-based systems including Satellite position location, TELEX exchange and TWX/TELEX conversion; electronic components including printed wiring boards, microcircuits, transformers, coils and delay lines.

MARINE AND LAND COMMUNICATIONS DIVISION

Engineering, manufacturing, marketing and servicing of mobile two-way radio and associated base station equipment, and marine radar, VHF-FM marine radio telephones, and mobile, fixed station and portable HF single sideband transmitter-receivers. Marketing and servicing of hand held radio telephones, radio and television broadcast station equipment, and electronic test instruments.

SPECIAL SERVICES DIVISION

Installation of radar, communications and air navigation equipment and systems, and operation of defence communications and detection systems. Repair and overhaul of radar, sonar, communications equipment and diesel electric generators. Repair and calibration of test equipment in government approved laboratories.

TELECOMMUNICATIONS DIVISION

Engineering, manufacturing and marketing of commercial and military land-based microwave communications equipment, ancillaries, and associated test equipment.



CANADIAN MARCONI COMPANY

FIRST NAME IN RADIO-ELECTRONICS